

Date: June 25, 2012

To: Thomas J. Bonfield, City Manager
Through: Theodore L. Voorhees, Deputy City Manager
From: Donald M. Long, Director, and Department of Solid Waste Management
Subject: Contract Between the City of Durham and Otto Container Management, LLC for Roll-Out Cart Services and Piggyback Purchase of Roll-Out Carts

Executive Summary

In July 2008, the City of Durham entered into a contract with Otto Container Management, LLC to rent, maintain, repair and deliver carts to households served by the Solid Waste Management Department in the collection of household municipal solid waste. In July 2009, the service was expanded to include recycling services to the community. In July 2010, the then current contract was amended to increase the number of carts serviced under the contract and to increase the annual monetary appropriations for this service. Substantial growth in the City of Durham, and the need to replace or repair the aging inventory of carts already in service, has continued to require additional carts. Due to the significant increase in the demand of the collection services, the Administration has determined that it is more cost effective for the City of Durham to purchase carts rather than remain in the cart rental program. Estimated savings of just over \$2.4 million are anticipated over the next 10 years by changing to this new business model.

Authorization is needed to 1) terminate the existing contract with Otto Container Management, LLC, 2) enter into a new service contract for cart maintenance, 3) purchase the existing inventory of rented carts, and 4) enter into a piggyback agreement through the City of Monroe, NC to purchase new carts in the future. There are currently 92,781 in the rental cart inventory, which will cost the City approximately \$3.9 million to purchase. The cost of the maintenance and service contract will be \$210,000.00 annually, with CPI and fuel surcharge adjustments. Ongoing cart purchases will be at a rate of \$44.92 per cart.

Recommendation

The Administration recommends that City Council authorize the City Manager to;

1. terminate the existing contract between the City of Durham and Otto Container Management, LLC and;
2. execute an agreement with Otto Container Management, LLC to purchase the existing rental cart inventory for \$3,935,111.00 and for maintenance, repair and delivery of carts for the curbside waste, recycling and yard waste collections programs for a period of three years at a cost not to exceed \$220,500.00 for year 1, \$227,115.00 for year 2, and \$233,928.00 for year 3 and;

3. enter into an agreement with Otto Container Management, LLC for the future purchase of roll-out carts in an amount not to exceed \$673,000.00 over the next three years.

Background

The City provides 65 and 95-gallon roll-out carts to single-family households receiving residential solid waste collection and recycling curbside services once per week, and 35-gallon roll-out carts to apartments and townhouses. The City and OTTO Container Management, LLC entered into a five-year contract as of the 17th of July, 2008 ("Initial Contract") to rent, maintain, repair, and deliver carts to the households served by the Solid Waste Management Department for the City of Durham. At that time, the City had 90,500 roll out carts in circulation, with an anticipated 5,000 new carts needed to accommodate replacement carts and new construction. In July 2009 the Solid Waste management Department expanded this service to include curbside recycling, placing 67,000 additional carts into circulation (Amendment #1) for the purpose of providing single-stream recycling collection services to the citizens of Durham.

Issues and Analysis

At the inception of the Initial Contract, the SWM department was unable to adequately meet the demands of carts that were needed due to growth within the City, damaged, lost and stolen carts and the inception of the single-stream recycling program. The department can now more accurately plan for the number of carts needed annually to meet the demands of households served.

The City currently has approximately 173,882 existing carts in circulation (92,781 rented, 81,101 City owned). As the City continues to grow, each additional household will require a minimum of two carts, three if they elect to participate in the yard waste program. Due to continued growth in the City of Durham, the significant increase in the demand of the curbside services as well as the durability and quality of the cart product being used, the Administration has determined that it is more cost effective for the City of Durham to purchase carts rather than to continue renting.

The Initial contract is due to expire June 30, 2013. To the Administration's satisfaction, the Contractor has successfully managed the cart rental, maintenance, repair and delivery services. For several years, this type of cart management proved to be beneficial to the City in providing adequate services to the citizens. The current contract in its present form will be terminated and superseded by this new contract. The Contractor will cease renting roll out containers to the City, and will provide cart maintenance, repair and delivery services to households served by the Solid Waste Management Department for the City of Durham.

To satisfy ongoing needs for new carts in the future, the Administration has identified a contract with Otto that was awarded by the City of Monroe, NC in May 2004 that offers competitive pricing and recommends that the City "piggyback" on that contract. Otto has agreed to sell carts to the City under the same terms as their contract with Monroe. Making purchases from another governmental agency's contract is referred to as "piggybacking". North Carolina General Statute 143-129(g) allows an exception to the bidding process when making a piggyback purchase. The exception reads as follows:

Waiver of Bidding for Previously Bid Contracts. - When the governing board of any political subdivision of the State, or the manager or purchasing official delegated authority under subsection (a) of this section, determines that it is in the best interest of the unit, the requirements of this section may be waived for the purchase of apparatus, supplies, materials, or equipment from any person or entity that has, within the previous 12 months, after having completed a public, formal bid process substantially similar to that required by this Article, contracted to furnish the apparatus, supplies, materials, or equipment to:

- (1) The United States of America or any federal agency;*
- (2) The State of North Carolina or any agency or political subdivision of the State; or*
- (3) Any other state or any agency or political subdivision of that state, if the person or entity is willing to furnish the items at the same or more favorable prices, terms, and conditions as those provided under the contract with the other unit or agency.*

Notwithstanding any other provision of this section, any purchase made under this subsection shall be approved by the governing body of the purchasing political subdivision of the State at a regularly scheduled meeting of the governing body no fewer than 10 days after publication of notice, in a newspaper of general circulation in the area served by the governing body, that a waiver of the bid procedure will be considered in order to contract with a qualified supplier pursuant to this section. Rules issued by the Secretary of Administration pursuant to [G.S. 143-49\(6\)](#) shall apply with respect to participation in State term contracts.

The Administration has analyzed market conditions, has compared the pricing to other recent similar bids, and recommends using the “piggyback” provision.

Alternatives

The City Council could choose not to approve funding for the purchase of the existing cart inventory. The department would continue with the existing rental, maintenance, repair and delivery services contract and enter into negotiations with the Contractor to extend these services.

Financial Impact

Otto has proposed to sell the existing inventory of carts to the City for \$3,935,111 and to provide maintenance and delivery services at a cost of \$210,000.00 per year for three years subject to an increase equal to the Consumer Price Index (CPI) each year and fuel surcharge adjustments. Moreover, the pricing offered through the Monroe, NC contract will enable the City to purchase future carts at a cost of \$44.92 per unit for the next three years. These costs compare favorably to the current leasing model and provide for lower cost as is illustrated on the attached Exhibit 1.

The City would initially fund the inventory purchase through an inter-fund loan that would be repaid with an external five year financing to take place in fiscal year 2014. Once the loan is repaid, the Solid Waste Enterprise Fund would enjoy significant annual savings compared to the current model of leasing carts even when factoring in the cost of purchasing new and replacement carts each year. Total savings over the 10 year planning horizon are just over \$2.4 million.

SDBE Summary

This is a contract modification and extension and is not reviewed for compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting.

Attachments

Exhibit 1 – Cost Comparison
Service Agreement
Piggyback Purchase Contract

Exhibit 1 – Cost Comparison

	Existing Costs	Maintenance	New Carts Purchased	Annual Debt Service	Total Annual Cost	Comparison
2013	\$ 1,491,501	\$ 210,000	\$ 224,600		\$ 970,000	\$ (521,501)
2014	\$ 1,159,092	\$ 216,300	\$ 224,600	\$ 781,934	\$ 1,222,834	\$ 63,742
2015	\$ 1,204,092	\$ 222,789	\$ 224,600	\$ 761,535	\$ 1,208,924	\$ 4,832
2016	\$ 1,192,692	\$ 229,473	\$ 224,600	\$ 741,137	\$ 1,195,210	\$ 2,518
2017	\$ 1,181,292	\$ 236,357	\$ 224,600	\$ 720,739	\$ 1,181,696	\$ 404
2018	\$ 1,169,892	\$ 243,448	\$ 224,600	\$ 700,340	\$ 1,168,388	\$ (1,504)
2019	\$ 1,158,492	\$ 250,751	\$ 224,600	\$ -	\$ 475,351	\$ (683,141)
2020	\$ 1,147,092	\$ 258,274	\$ 224,600	\$ -	\$ 482,874	\$ (664,218)
2021	\$ 1,135,692	\$ 266,022	\$ 224,600	\$ -	\$ 490,622	\$ (645,070)
2022	\$ 1,124,292	\$ 274,002	\$ 224,600	\$ -	\$ 498,602	\$ (625,690)
	\$ 11,964,129	\$ 2,407,415	\$ 2,246,000	\$ 3,705,685	\$ 8,894,500	\$ (2,443,940)